STATE OF ARIZONA

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

OFFICE OF THE

AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

October 1, 2007

The Honorable Robert Blendu, Chair
Joint Legislative Audit Committee

The Honorable John Nelson, Vice Chair
Joint Legislative Audit Committee

Dear Senator Blendu and Representative Nelson:

Our Office has recently completed an 18-month follow-up of the Department of Revenue—Business Reengineering/Integrated Tax System (BRITS), regarding the implementation status of the 19 audit recommendations (including sub-parts of the recommendations) presented in the performance audit report released in October 2005 (Auditor General Report No. 05-15). As the attached grid indicates:

■   7 have been implemented, and
■   12 are in the process of being implemented.

Our Office recommends completing the next follow-up for this audit in approximately one year (August 2008) rather than at the normal 6-month interval to accommodate the Department's need to focus on the next two BRITS program implementations, currently scheduled for December 2007 and April 2008. This delay will also allow our Office to better report on the status of the BRITS program, including the Department's post-implementation activities.

Sincerely,

Melanie M. Chesney, Director
Performance Audit Division

MMC:Acm
Attachment

cc: Gale Garriott, Director
       Department of Revenue

DEPARTMENT OF REVENUE
BUSINESS REENGINEERING/INTEGRATED TAX SYSTEM (BRITS)
18-Month Follow-Up Report To
Auditor General Report No. 05-15

FINDING 1:   Department needs to better manage BRITS project

Recommendation	Status of Implementing Recommendation	Explanation for Recommendations That Have Not Been Implemented
1. To take advantage of expert project management advice, the Department should consider hiring an outside advisor to oversee the remaining implementation of BRITS and fulfill the outside advisor's requirements that are described in the BRITS contract. To do so, the Department would have to examine possible funding methods, such as allocating monies from its current budget, or seeking a separate appropriation from the Legislature.	Implementation in Process	According to the Department, it hired Comsys in February 2006 as an outside advisor without seeking an additional appropriation. The advisor provided the Department with a draft of its audit findings and recommendations in June 2006. In January 2007, the Department developed a draft implementation plan. The Department has prioritized its plans for implementing the advisor's recommendations into three phases and the advisor will produce a follow-up report at the end of each phase. According to the Department, the third phase will be implemented by October 31, 2007.
2. To better ensure success and to ensure that the terms of the BRITS contract are fulfilled, the Department should develop and follow its own overall plan to manage the project.	**Implemented at 6 Months**	

DEPARTMENT OF REVENUE
BUSINESS REENGINEERING/INTEGRATED TAX SYSTEM (BRITS)
18-Month Follow-Up Report To
Auditor General Report No. 05-15

FINDING 1:   Department needs to better manage BRITS project (cont'd)

Recommendation	Status of Implementing Recommendation	Explanation for Recommendations That Have Not Been Implemented
3. To prevent some of the issues that occurred in the initial phases of BRITS, the Department should continue its efforts to include key stakeholders in better defining the Department's requirements for the BRITS system and ensuring that both the Department and Accenture agree on what those requirements are until the BRITS project is complete.	Implementation in Process	Key stakeholders and Accenture remain involved in gathering and approving the requirements for the BRITS program. According to the July 2007 monthly DOR/GITA BRITS status report, the next implementation for the BRITS program, Individual Income Tax, is scheduled for December 2007. This will be followed by the ESKORT desk audit segment, which is scheduled for April 2008. Post-implementation activities are scheduled until the BRITS program implementation end date of June 30, 2008.

DEPARTMENT OF REVENUE
BUSINESS REENGINEERING/INTEGRATED TAX SYSTEM (BRITS)
18-Month Follow-Up Report To
Auditor General Report No. 05-15

FINDING 1: Department needs to better manage BRITS project (cont'd)

Recommendation	Status of Implementing Recommendation	Explanation for Recommendations That Have Not Been Implemented
4. To remain aware of and plan for project risks, the Department should continue its efforts to identify, document, and mitigate risks until the BRITS project is complete.	Implementation in Process	According to the Department, it has taken steps to improve its risk management process based on recommendations made by the outside advisor, Comsys. In January 2007, the Department developed a draft plan for implementing Comsys' recommendations including those relating to its risk management processes. The Department prioritized the Comsys recommendations related to risk management as the first ones to be implemented, and according to the Department many of these recommendations were implemented by April 30, 2007. However, some recommendations were not implemented because they were no longer applicable for the current phase of the BRITS project, but the Department plans to implement these recommendations related to risk management on future projects.

FINDING 1:   Department needs to better manage BRITS project (cont'd)

Recommendation	Status of Implementing Recommendation	Explanation for Recommendations That Have Not Been Implemented
5. To make certain that all necessary functions of the system are working prior to conversion, the Department should ensure BRITS testing is adequate, including:		
a. Getting system users involved with testing as early as possible, and	Implementation in Process	According to the Department it has designated subject matter experts from each division who are responsible for reviewing system test conditions (test scenarios for user testing), creating and reviewing user test conditions, and planning for user testing which began in July 2007.
b. Making sure that an adequate amount of time is taken to perform testing, and correct and retest any problems.	Implementation in Process	The Department reported that it hired a consultant to oversee and coordinate user testing. The Department reported that user testing for Individual Income Tax which started in July 2007, is scheduled to be completed by October 2007. In addition, ESKORT desk audit user testing is scheduled for 3 months, starting late in December 2007, and ending March 2008. The consultant testing coordinator will not oversee this testing, but will still advise and assist.

FINDING 1:   Department needs to better manage BRITS project (cont'd)

Recommendation	Status of Implementing Recommendation	Explanation for Recommendations That Have Not Been Implemented
6. To ensure that all department staff can perform their jobs using BRITS, the Department should continue to ensure that future training will address previous training problems and will allow the Department to effectively use, operate, and maintain BRITS.	Implementation in Process	The Department reported that all staff training classes are designed and materials are developed for Individual Income Tax training which is scheduled to begin October 1, 2007. The Department has also designated staff who are responsible for creating and reviewing procedures, and developing and delivering training. In addition to ensure that training helps department staff perform their functions, the Department has taken steps to ensure IT staff are fully trained to operate and maintain BRITS. For example, the Department has assessed its IT staff's training needs and developed some initial training plans to meet those needs.

FINDING 1:   **Department needs to better manage BRITS project (cont'd)**

Recommendation	Status of Implementing Recommendation	Explanation for Recommendations That Have Not Been Implemented
7. To ensure the BRITS system is secure and sensitive data is protected, the Department should:		
a. Complete and implement policies and procedures that govern system access controls, audit trail creation and analysis, data encryption management, virus protection, and intrusion detection and prevention; and,	Implementation in Process	The Department hired a new security manager in the fall of 2006 and is in the process of developing an IT security program. The Department reported that it has four full-time staff dedicated to data security. The Department is in the process of revising its *Information Security Policy Manual* and plans to have it completed by October 2007. In addition, the Department indicated that it is forming an Information Security Committee whose responsibilities include reviewing the Department's information security policy for effectiveness, impact, and appropriateness.

FINDING 1:   Department needs to better manage BRITS project (cont'd)

Recommendation	Status of Implementing Recommendation	Explanation for Recommendations That Have Not Been Implemented
b. Perform security assessments periodically to determine if its policies and procedures are followed and adequately ensure system security.	Implementation in Process	A draft of the Department's *Information Security Policy Manual* indicates that the Information Security Office (Office) will perform annual information security risk assessments of each business unit and work with them to develop security plans. In addition, it indicates that the Office will perform security assessments of each unit's security controls and if necessary work with the units to develop action plans to address security vulnerabilities.
8. To help with the planning and execution of future phases of the project, the Department should develop and follow a formal post-implementation review plan, as stated in the BRITS contract, that outlines how and when during the project it will perform the reviews.	Implementation in Process	According to the Department, it is gathering project expectations for Individual Income and ESKORT desk audit from stakeholders and will be developing a post-implementation review plan. In addition, according to department management, the post-implementation review will review project schedule, budget, and identify lessons learned to apply to future projects.

FINDING 1:   Department needs to better manage BRITS project (concl'd)

Recommendation	Status of Implementing Recommendation	Explanation for Recommendations That Have Not Been Implemented
9. To increase the chances of success, until the project is complete, the Department should continue to hold lessons-learned sessions at appropriate points during the project and should document and use the results of these meetings to improve BRITS' implementation.	Implementation in Process	The BRITS Steering Committee held lessons learned meetings to discuss the creation of manual procedures and training, and organizational readiness and communication, for the Individual Income Tax and ESKORT desk audit implementations. According to the Department, it has changed some processes for the Individual Income Tax implementation because of prior lessons learned meetings. For example, according to the Department it is ensuring that interfaces with "feeder systems" into BRITS, such as the cashier system and the tax returns data entry system, are tested during user testing. In addition, the Department reported that it ensured that test cases were identified and prioritized for user testing so that the most critical business processes will be tested first.

DEPARTMENT OF REVENUE
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Auditor General Report No. 05-15

FINDING 2:   BRITS not generating additional revenue as expected

Recommendation	Status of Implementing Recommendation	Explanation for Recommendations That Have Not Been Implemented
1. The Department should continue to work toward improving BRITS-generated revenue for the remainder of the contract term. Specifically, the Department should continue to work with Accenture to:		
a. Resolve BRITS' inability to generate accurate collections notices, thereby increasing efficiency revenue, and	Implementation in Process	To prevent inaccurate billing statements caused by data conversion and processing issues encountered while implementing BRITS, the Department delayed some billings. It continues to work toward reducing its billing backlog through a special project and has also implemented a process to continue to review some billings for accuracy.

DEPARTMENT OF REVENUE
BUSINESS REENGINEERING/INTEGRATED TAX SYSTEM (BRITS)
18-Month Follow-Up Report To
Auditor General Report No. 05-15

FINDING 2: **BRITS not generating additional revenue as expected (cont'd)**

Recommendation	Status of Implementing Recommendation	Explanation for Recommendations That Have Not Been Implemented
b. Improve existing BRITS discovery programs and identify and implement new programs.	Implementation in Process	Department staff reported that the Department has not implemented any new discovery programs since the last follow up, but it has plans to do so in the future. Department management also explained that new discovery programs require IT programming, and programmers are currently working on preparing for the Individual Income Tax and ESKORT desk audit implementations. The Department plans to explore further discovery programs after these implementations are complete. The Department further reported that more than $4.8 million was collected in fiscal year 2007 through the five discovery programs in use.
2. The Department should continue to report the following information about BRITS enforcement revenue in its monthly Project Status Report to GITA:		
a. The amounts of discovery revenue, license compliance baseline revenue, and efficiency revenue separately,	**Implemented at 6 Months**	

FINDING 2:   BRITS not generating additional revenue as expected (concl'd)

Recommendation	Status of Implementing Recommendation	Explanation for Recommendations That Have Not Been Implemented
b. Any negative efficiency amounts incurred, and	**Implemented at 6 Months**	
c. Any cumulative negative efficiency amount and the fact that the amount must be earned back before Accenture can be paid from future efficiency revenue.	**Implemented at 6 Months**	

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BUSINESS REENGINEERING/INTEGRATED TAX SYSTEM (BRITS)
18-Month Follow-Up Report To
Auditor General Report No. 05-15

FINDING 3:   **Department should better ensure contract changes are appropriate**

Recommendation	Status of Implementing Recommendation	Explanation for Recommendations That Have Not Been Implemented
1. To ensure that contract changes are in the State's best interest and within the legal requirements, such as contract terms and procurement rules, the Department should:		
a. Consult its procurement office and EPS about proposed changes and document the related discussions, or	**Implemented at 18 Months**	
b. If the Department believes proposed changes clearly will not affect the overall contract scope and therefore do not warrant EPS' involvement, document the reasoning behind its determination.	**Implemented at 18 Months**	
2. To ensure that changes affecting the project's scope are identified and incorporated into the contract, the Department should prepare documentation for contract changes that clearly explains the change being made, why it is being made, and whether the change will impact the scope of the tasks involved or the overall project.	**Implemented at 18 Months**	